

Sunway (SWB MK)

Unlocking Synergistic Value From Potential IJM VTO

Highlights

- Sunway has announced a conditional takeover offer in IJM shares for a consideration of RM11.0b at an offer price of RM3.15. This implies a FY26F PE of 24.0x and P/B of 1.1x, below Sunway's own trading multiple.
- Management sees potential synergistic value from cost savings and revenue expansion, especially in IJM's landbank value.
- Maintain BUY with an unchanged target price of RM6.10, as the VTO requires shareholder and regulatory approvals.

Analysis

- Conditional VTO on IJM.** On 12 Jan 26, Sunway Bhd (Sunway) announced a conditional voluntary take-over offer (VTO) to acquire all the ordinary shares (3,505.2m) in IJM Corporation (IJM) at an offer price of RM3.15, for a total consideration of RM11.0b. The purchase consideration will be satisfied 90% through the new issuance of Sunway shares and 10% in cash, thus, pro-forma net gearing should improve from 0.56x to 0.48-0.50x. The VTO is conditional upon: a) a minimum acceptance condition of 50% + one share, b) approval of Sunway's major shareholders at an EGM to be convened earliest in Mar 26, and c) approvals from Bursa Securities and other relevant authorities. The deal is targeted for completion in 3Q26.
- Good deal for Sunway.** The acquisition translates to an implied PE of 24.0x/20.5x and P/B of 1.1x/1.0x for FY26F/27F (FYE March), which we view as fair and value-accretive when benchmarked against Sunway's own trading multiples of 31.6x 2026F PE and 2.3x 2026F P/B. Our back-of-the-envelope estimates suggest the acquisition will deliver core EPS accretion of 6-14% over 2026-27 post-exercise, based on a range of 50.1-100.0% acquisition stake.
- Transaction rationale.** This deal could potentially allow Sunway to emerge as the largest property and construction conglomerate group in Malaysia, with a combined total asset of RM57.8b (vs before: RM35.7b) and trailing 12-month net income of RM1.8b (vs before RM1.3b), based on end-Sep 25 figures. The enlarged asset base should improve its credit ratings and access to financing while lowering cost of debt, which stood at 3.96% on average as of end-Sep 25. Management sees synergistic value in the deal from: a) cost savings due to economies of scale, and b) revenue expansion. Management does not exclude the possibility to rejig and streamline IJM's strategy after the exercise, given the overlapping business segments.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	6,136.2	7,882.5	9,788.9	10,331.1	11,469.4
EBITDA	808.0	1,031.4	1,352.6	1,568.4	1,787.5
Operating profit	666.6	887.3	1,152.7	1,328.0	1,503.7
Net profit (rep./act.)	789.2	1,154.2	1,043.3	1,254.7	1,354.1
Net profit (adj.)	750.6	1,005.8	1,043.3	1,254.7	1,354.1
EPS (sen)	12.6	15.1	15.7	18.8	20.3
PE (x)	42.3	35.4	34.2	28.4	26.3
P/B (x)	2.3	2.4	2.3	2.2	2.1
EV/EBITDA (x)	48.5	37.0	29.9	26.2	23.4
Dividend yield (%)	1.0	1.1	1.2	1.4	1.5
Net margin (%)	12.2	12.8	10.7	12.1	11.8
Net debt/(cash) to equity (%)	53.1	43.5	55.8	56.1	57.4
Interest cover (x)	11.4	164.3	10.0	9.9	15.1
ROE (%)	7.0	9.0	9.0	10.5	11.0
Consensus net profit	-	-	1,044.0	1,200.0	1,301.0
UOBKH/Consensus (x)	-	-	1.0	1.1	1.0

Source: Sunway Berhad, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM5.60
Target Price	RM6.10
Upside	8.9%

Analyst(s)

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Stock Data

GICS sector	Industrials
Bloomberg ticker:	SWB MK
Shares issued (m):	6,760.4
Market cap (RMm):	37,858.4
Market cap (US\$m):	9,317.1
3-mth avg daily t'over (US\$m):	9.8

Price Performance (%)

52-week high/low					RM5.93/RM3.93
1mth	3mth	6mth	1yr	YTD	
(0.5)	(3.1)	14.8	21.2	(0.4)	

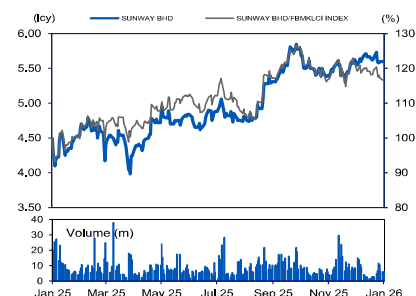
Major Shareholders

	%
Sungei Way Corp Sdn Bhd	47.2
Jef-San Enterprise Sdn Bhd	9.5
EPF	8.8

Balance Sheet Metrics

	%
FY25 NAV/Share (RM)	1.25
FY25 Net Debt/Share (RM)	0.41

Price Chart



Source: Bloomberg

Company Description

A conglomerate in Malaysia with various diversified businesses in areas such as property development, property investment, leisure, hospitality, construction trading and manufacturing, quarry, building materials and healthcare.

- **The larger synergy lies in property, where IJM's GDV per acre is materially below Sunway's.** After the acquisition, Sunway's landbank will expand by more than double (+140%) to 5,685 acres, while potential GDV will increase by 62% to RM118.1b. While IJM brings a sizeable landbank, its GDV per acre (RM13.6m) is 44% below that of Sunway's (RM30.8m). This creates clear scope to lift IJM's landbank value, as Sunway's integrated developments, enhanced by retail and healthcare elements, support higher GDV intensity and margins.
- **Synergies are also evident in the construction segment.** This will be driven by cost savings from economies of scale, including bulk purchase, centralised procurement and streamlined processes. Furthermore, Sunway's strength in the higher-margin mechanical and engineering segments and piling could complement areas where IJM is relatively weaker, supporting overall margins. Management does not rule out the potential injection of IJM into Sunway Construction, should it acquire a 100% stake. After the acquisition, Sunway's total outstanding construction orderbook will increase by more than double (+141%) to RM13b.

Pro-Forma Target Price Calculation

	Maximum Scenario	Minimum Scenario
	100%	50% + 1 share
Sunway share price (RM)	5.65	5.65
Sunway offer IJM price	3.15	3.15
90% via Sunway shares (RM)	2,8350	2,8350
10% via cash (RM)	0,315	0,315
Swap ratio	0.5018	0.5018
Total consideration (RMm)	11,041.3	5,523.8
- Sunway shares (RMm)	9,937.1	4,971.4
- Cash (RMm)	1,104.1	552.4
Sunway SOTP (RMm)	40,437.1	40,437.1
IJM SOTP (RMm)	12,399.3	6,212.1
Minus Cash paid (RMm)	1,104.1	552.4
Combined SOTP value	51,732.3	46,096.7
Sunway's enlarged shares (m)	8,519.2	7,640.3
Pro-forma SOTP for Sunway (RM)	6.07	6.03
Changes (%)	-0.5%	-1.1%

Source: Sunway Berhad, UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM6.10**, as we have yet to factor in the potential acquisition, which is pending shareholder and regulatory approvals. Our target price is based on SOTP valuation and implies 32x 2026F PE and 30x 2027F PE (+2SD above its five-year mean of 15.6x) and 2.4x 2026F P/B (+2SD above its 10-year mean of 1.2x). We remain upbeat on Sunway for its upcoming healthcare listing in 1Q26, with an approximately 3% distribution yield via distribution-in-specie of Sunway Healthcare shares, based on its current share price.
- Pro-forma SOTP for Sunway will range from RM6.03 (-1.1%) to RM6.07 (-0.5%), based on its minimum (50% + 1 share) and maximum (100%) stake acquisition scenario. However, note that this excludes any potential value accretion from various synergies.

Earnings Revision/Risk

- We make no changes to our earnings forecast, pending completion of the exercise.

Environmental, Social, Governance (ESG) Updates

Environmental

- Installed photovoltaic solar panels at most of its properties.

Social

- Launched Sunway Cancer Support Fund.

Governance

- Good company transparency along with an anti-bribery and anti-corruption policy.

SOTP-Based Valuation

Segment	(RMm)	% of SOTP	Remarks
Property development	14,234	35%	5% discount to property RNAV
REIT (40.9% stake)	3,236	8%	Valuation based on target price of RM2.31, based on DDM
Construction (54.4% stake)	4,516	11%	Valuation based on target price of RM6.27, 21x 2026F PE
Quarry & building materials	462	1%	15x PE 2026F quarry profits
Trading	1,092	3%	15x PE 2026F trading profits
Investment Properties	3,390	8%	Market Value
Healthcare (84% stake)	13,800	34%	25x EV/EBITDA 2026F; 2026F EBITDA RM657m
Less: Holding co (debt)/ cash	-292	-1%	
Total SOTP value	40,437		
Enlarged share base (m)	6,660		
Target Price (RM)	6.1		

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	7,882.5	9,788.9	10,331.1	11,469.4
EBITDA	1,031.4	1,352.6	1,568.4	1,787.5
Deprec. & amort.	144.1	199.9	240.4	283.8
EBIT	887.3	1,152.7	1,328.0	1,503.7
Associate contributions	643.1	431.7	510.6	448.1
Net interest income/(expense)	(6.3)	(135.4)	(158.9)	(118.7)
Pre-tax profit	1,524.1	1,449.0	1,679.6	1,833.1
Tax	(241.8)	(289.8)	(285.5)	(311.6)
Minorities	(128.0)	(115.9)	(139.4)	(167.4)
Net profit	1,154.2	1,043.3	1,254.7	1,354.1
Net profit (adj.)	1,005.8	1,043.3	1,254.7	1,354.1

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	6,370.1	7,376.1	7,913.2	8,481.5
Other LT assets	10,349.6	10,781.3	11,291.9	11,740.0
Cash/ST investment	4,355.7	4,561.9	4,090.8	3,409.4
Other current assets	10,435.0	11,767.0	12,277.8	13,350.2
Total assets	31,510.4	34,486.4	35,573.7	36,981.1
ST debt	5,971.8	5,971.8	5,971.8	5,971.8
Other current liabilities	3,944.7	3,778.8	3,973.9	4,401.4
LT debt	4,905.4	7,305.4	7,305.4	7,305.4
Other LT liabilities	750.8	750.8	750.8	750.8
Shareholders' equity	14,990.4	15,616.4	16,369.2	17,181.6
Minority interest	947.2	1,063.2	1,202.6	1,369.9
Total liabilities & equity	31,510.4	34,486.4	35,573.7	36,981.1

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	1,574.1	(899.1)	967.2	831.0
Pre-tax profit	1,524.1	1,449.0	1,679.6	1,833.1
Tax	(241.8)	(289.8)	(285.5)	(311.6)
Deprec. & amort.	144.1	199.9	240.4	283.8
Associates	(643.1)	(431.7)	(510.6)	(448.1)
Working capital changes	330.7	(1,961.9)	(315.7)	(644.8)
Non-cash items	460.2	135.4	158.9	118.7
Investing	(26.3)	(742.0)	(777.5)	(852.2)
Capex (growth)	(427.7)	(642.0)	(677.5)	(752.2)
Investments	0.3	(100.0)	(100.0)	(100.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	401.1	0.0	0.0	0.0
Financing	572.5	1,847.3	(660.8)	(660.3)
Dividend payments	(297.5)	(417.3)	(501.9)	(541.6)
Issue of shares	217.4	0.0	0.0	0.0
Proceeds from borrowings	1,340.2	2,400.0	0.0	0.0
Others/interest paid	(687.5)	(135.4)	(158.9)	(118.7)
Net cash inflow (outflow)	2,120.4	206.2	(471.1)	(681.5)
Beginning cash & cash equivalent	2,235.3	4,355.7	4,561.9	4,090.8
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	4,355.7	4,561.9	4,090.8	3,409.4

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	13.1	13.8	15.2	15.6
Pre-tax margin	19.3	14.8	16.3	16.0
Net margin	12.8	10.7	12.1	11.8
ROA	4.0	3.9	4.6	4.9
ROE	9.0	9.0	10.5	11.0
Growth				
Turnover	28.5	24.2	5.5	11.0
EBITDA	27.6	31.1	16.0	14.0
Pre-tax profit	53.4	(4.9)	15.9	9.1
Net profit	46.3	(9.6)	20.3	7.9
Net profit (adj.)	34.0	3.7	20.3	7.9
EPS	19.5	3.7	20.3	7.9
Leverage				
Debt to total capital	68.2	79.6	75.6	71.6
Debt to equity	72.6	85.0	81.1	77.3
Net debt/(cash) to equity	43.5	55.8	56.1	57.4
Interest cover (x)	164.3	10.0	9.9	15.1

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